

June 4, 2001

IN RE: DOCKET NO. 2001-65-C – BellSouth Telecommunications, Inc. –  
Generic Proceeding to Establish Prices for BellSouth  
Telecommunications, Inc.'s Interconnection Services, Unbundled  
Network Elements and Other Related Elements and Services.

**COPY OF TESTIMONY OF JAMES M. MCDANIEL, DAVID S.  
LACOSTE AND JAMES E. SPEARMAN FILED ON BEHALF OF  
COMMISSION STAFF HAS BEEN DISTRIBUTED TO THE FOLLOWING:**

\_\_\_\_\_  
J. McDaniel

\_\_\_\_\_  
D. Lacoste

\_\_\_\_\_  
Research

\_\_\_\_\_  
Legal (2)

\_\_\_\_\_  
Exec. Director

\_\_\_\_\_  
Manager, Utils Dept.

\_\_\_\_\_  
Audit (1)

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Commissioners (7)

pao

COMMISSIONERS  
WILLIAM "BILL" SAUNDERS, 1ST DISTRICT  
CHAIRMAN  
H. CLAY CARRUTH, JR., 5TH DISTRICT  
VICE CHAIRMAN



COMMISSIONERS  
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PHILIP T. BRADLEY, 4TH DISTRICT  
MIGNON L. CLYBURN, 6TH DISTRICT  
C. ROBERT MOSELEY, AT LARGE

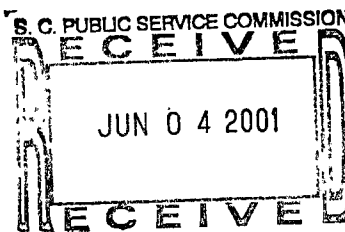
GARY E. WALSH  
EXECUTIVE DIRECTOR  
Phone: (803) 896-5100  
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## The Public Service Commission State of South Carolina

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June 4, 2001

Honorable Gary E. Walsh  
Executive Director  
Public Service Commission of South Carolina  
Post Office Drawer 11649  
Columbia, SC 29211



**RE: Docket No. 2001-65-C – Generic Proceeding to Establish Prices for  
BellSouth Telecommunications, Inc.'s Interconnection Services, Unbundled  
Network Elements and other related Elements and Services.**

Dear Mr. Walsh:

Pursuant to R.103-869 of the Commission's Rules and Regulations, I am herein enclosing the original and twenty-five (25) copies of the testimony and exhibits intended to be offered by the three (3) witnesses for the Commission Staff in the above referenced proceeding. By copy of this letter, I am serving copies of the testimony on the parties of record in this proceeding as per attached Certificate of Service.

If I may be of further assistance, please do not hesitate to contact me.

Sincerely,

A handwritten signature in dark ink, appearing to read "F. David Butler".

F. David Butler  
General Counsel

FDB/hha  
Enclosures

cc: All Parties of Record

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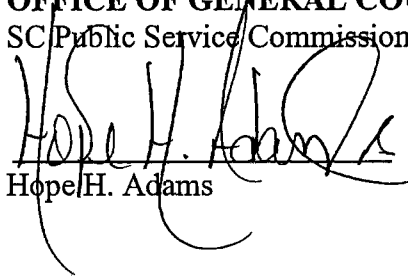
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**PLEADING(S): Commission Staff Testimony and Exhibits of James M. McDaniel, David S. Lacoste and James E. Spearman**

**OFFICE OF GENERAL COUNSEL**  
SC Public Service Commission

By:

  
Hope/H. Adams

Columbia, South Carolina  
June 4, 2001



**BEFORE  
THE PUBLIC SERVICE COMMISSION  
OF  
SOUTH CAROLINA**

**DOCKET NO. 2001-65-C**

**IN THE MATTER OF:**

Generic Proceeding to Establish Prices for	)	<b>CERTIFICATE OF SERVICE</b>
BellSouth Telecommunications, Inc.'s	)	<b>(BY REGULAR U.S. MAIL)</b>
Interconnection Services, Unbundled Network	)	
Elements and other related Elements and Services.	)	

I, Hope H. Adams, do hereby certify that I have on the date indicated below served the following named individual(s) with one (1) copy of the pleading(s) listed below by First Class Mail with sufficient postage attached and return address clearly marked.

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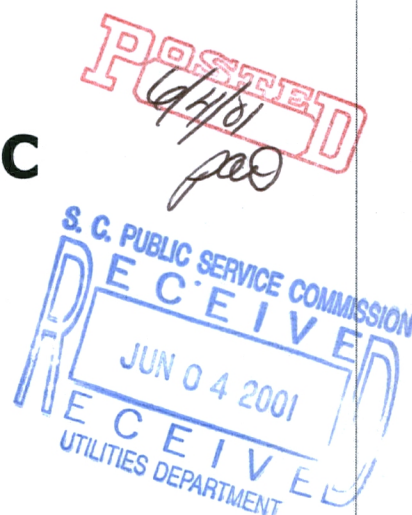
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**Proceeding to establish prices for  
BellSouth Telecommunications,  
Inc.'s Interconnection Services,  
Unbundled Network Elements and  
other related elements and services**

**Docket No. 2001-65-C**



**Testimony of  
James M. McDaniel  
Utilities Department**

**Public Service Commission of South Carolina**

1 **Q. WOULD YOU PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND**  
2 **OCCUPATION?**

3 A. James M. McDaniel, 101 Executive Center Drive, Columbia, South Carolina. I  
4 am employed by the Public Service Commission of South Carolina  
5 (Commission). Recently, I was promoted to Chief of the Telecommunications  
6 areas of the Utilities Department.

7 **Q. WOULD YOU PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND**  
8 **YOUR BUSINESS EXPERIENCE?**

9 A. I received a B.S. Degree in Engineering from the University of South Carolina  
10 in December of 1975. I was employed by the Public Service Commission of  
11 South Carolina in February of 1976. I have always worked in the Utilities  
12 Department and my specific assignments have been in the area of regulation  
13 of the telecommunications industry.

14 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

15 A. Yes. During my tenure with the Commission, I have offered testimony in  
16 proceedings concerning ratemaking, rate design, depreciation, rule making,  
17 and complaints.

18 **Q. WHAT IS PURPOSE OF YOUR TESTIMONY?**

19 A. The purpose of my testimony is to provide the Commission with a summary of  
20 the Commission's previous decisions in its considerations of BellSouth  
21 Telecommunications' Unbundled Network Elements (UNE's). Additionally, I  
22 share some general comments concerning the BellSouth's proposal in this  
23 proceeding, which I believe may enhance competition among local exchange  
24 carriers. I also discuss non-recurring charges and BellSouth's proposed zones.

25 **Q. DID YOU PROVIDE TESTIMONY IN EARLIER PROCEEDINGS**  
26 **CONCERNING BELL SOUTH'S COST STUDIES OR UNE PRICES?**

27 A. No. This is the first opportunity for Staff to provide testimony in this type of  
28 proceeding. Our past participation has been limited to assisting the  
29 Commission in its review of the information submitted by the parties in  
30 BellSouth's Unbundled Network Element Cost Methodology proceeding.

**Q. WOULD YOU PLEASE PROVIDE A SUMMARY OF THE COMMISSION'S PREVIOUS DECISIONS?**

A. Yes. The Commission's first formal review of BellSouth Telecommunications, Inc.'s cost methodology for pricing unbundled network elements (UNEs) was undertaken in Docket 97-374-C. This generic proceeding was established in response to a Petition filed by AT&T Communications of the Southern States, Inc. (AT&T) in Docket No. 96-358-C, wherein AT&T requested that the Commission arbitrate an interconnection agreement with BellSouth. In the arbitration proceeding, the Commission established interim unbundled network elements prices for BellSouth until such time as the Commission could review actual costs and establish permanent UNE prices. Since BellSouth's UNE prices would not only affect AT&T, but other carriers, the Commission established a generic proceeding so that all interested parties could participate. Docket No. 97-374-C was established for this generic proceeding. In Order No. 98-881 under this Docket, the Commission found that the UNE prices should be based upon BellSouth's existing network configuration recalculated to reflect forward looking costs, with certain modifications to the inputs. A summary of the Commission's input modifications follow:

- 1) The Commission adopted the capital structure, cost of debt, and cost of equity last approved by Commission for BellSouth in the context of an earnings review of BellSouth;
- 2) The Commission adopted the use of the depreciation rates last prescribed by the Commission (1992);
- 3) The Commission adopted cable fill factors of 75% for Feeder system and 50% for Distribution systems;
- 4) The Commission adopted a common cost factor of 4.79%;
- 5) The Commission denied residual cost recovery. The residual cost recovery requirement for loops and ports reflects the difference between the forward-looking network contained in its studies and the actual network that BellSouth will use to provide service to CLECs; and
- 6) The Commission adopted an Order Fall-out Factor of 5%.

1  
2 Additionally, the Commission Order included other findings, which I have  
3 summarized below:

- 4 1) The Commission denied the use of the intervenor's Hatfield Model.
- 5 2) The Commission adopted the drop wire lengths proposed by BellSouth.
- 6 3) The Commission adopted the BellSouth's structure sharing costs, in so  
7 far as the common costs did not exceed the Commission previously  
8 adopted figure of 4.79%, for use in the TELRIC model.
- 9 4) The Commission rejected the intervenor's assumptions on cable sizes  
10 and tapering, because they were unrealistic and because the  
11 intervenors failed to account for the additional costs which would be  
12 entailed. The Commission found that BellSouth's cost study was based  
13 on reasonable assumptions on cable sizes and bridge taps, based on  
14 the experience of its subject matter expert.
- 15 5) The Commission found that BellSouth is obligated to deliver unbundled  
16 loops and unbundled ports that CLECs can combine themselves. This  
17 made it impossible to use integrated Digital Loop Carrier (DLC)  
18 technology, which would result in a combined loop and port in a  
19 forward-looking network design.
- 20 6) The Commission found that the Switching Cost Information System,  
21 when modified by the inputs, is the appropriate tool for computing  
22 switching costs in BellSouth's cost study. The Commission adopted  
23 BellSouth's development of separate costs for each vertical feature,  
24 which are provided through both switching hardware and software in  
25 contrast to intervenor's argument that there should be no separate cost  
26 from the switching cost and thus separate recurring rates for vertical  
27 features.
- 28 7) With regard to nonrecurring cost, the Commission found that the  
29 intervenor's non-recurring cost model attempted to eliminate virtually all  
30 non-recurring charges. The Commission found that BellSouth's TELRIC  
31 cost studies reflected the costs associated with the ordering and  
32 provisioning of unbundled network elements as the appropriate non-



1 recurring charge for each element. In addition, the Commission found  
2 that the cost of installing lines was caused directly by the party that  
3 orders the lines, whether party is an end user or a CLEC. Thus, such  
4 costs are appropriately recovered through non-recurring charges.

5 8) With regard to nonrecurring charges, the key assumptions underlying  
6 MCI and AT&T's Non-recurring Cost Model was that unbundled network  
7 element orders (including orders for new lines and additional lines) will  
8 automatically flow through the ordering and provisioning process using  
9 currently available OSS, processes and procedures with little or no  
10 manual intervention. AT&T and MCI Nonrecurring Cost Model also  
11 referred to Bellcore's Telecommunications Management Network  
12 architecture. There is no evidence that the architecture has been fully  
13 developed or deployed.

14 9) With regard to non-recurring charges, BellSouth's studies included a  
15 charge for utilizing the interfaces it had developed for CLECs to obtain  
16 non-discriminatory access to BellSouth's OSS databases. In Docket No.  
17 96-358-C, the AT&T and BellSouth Arbitration Proceeding, the  
18 Commission adopted an AT&T proposal that the costs associated with  
19 implementing electronic interfaces would be shared among all parties  
20 who benefit from those interfaces. The Commission found that the OSS  
21 BellSouth's cost recovery proposal is consistent with the Commission's  
22 ruling and the appropriate rates are those rates resulting with the  
23 required input modifications.

24 10) With respect to collocation, the Commission found that collocation was  
25 not an unbundled network element, nor was it interconnection under the  
26 Telecommunications Act of 1996 (the Act). Therefore, the pricing  
27 standards under the Act did not apply to collocation, but only to  
28 interconnect and unbundled network elements. Further, the  
29 Commission found that with regard to virtual collocation, BellSouth's  
30 collocation cost study is reasonable and consistent with the  
31 requirements of the Act. Additionally, the Commission found that  
32 BellSouth's collocation cost studies accurately reflected the cost

1 incurred to provide physical location. However, in an attempt to foster  
2 the goal of competition in the local exchange market, the Commission  
3 approved a lower amount for the one time application fee for physical  
4 collocation.

5 In Docket No. 2000-0122-C, BellSouth filed, on March 6, 2000, a  
6 Petition with the Commission to establish geographically deaveraged rates for  
7 unbundled network elements and network elements combinations by May 1,  
8 2000. Motions were filed by interested parties, which requested that the  
9 Commission exclude the testimony submitted in support of the BellSouth's  
10 Petition and to bifurcate the network combination proposal from the  
11 geographically deaveraged rates.

12 In response to the Motions and Responses, the Commission set the  
13 Motions for oral arguments. Prior to receiving oral arguments on the Motion,  
14 BellSouth, AT&T and MCI entered a Stipulation which allowed the BellSouth  
15 proposed deaveraged rates and UNE combinations to go into effective on May  
16 1, 2000 on interim basis until permanent rates could be established. The  
17 remaining interested parties in this docket filed letters agreeing to the interim  
18 arrangement. The Stipulation was approved by the Commission by way of  
19 Order No. 2000-373, dated April 24, 2000.

20 **Q. WOULD YOU PLEASE SUMMARIZE THE CURRENT PROCEEDING?**

21 A. Yes. BellSouth Telecommunications, Inc. filed a Petition with the Commission  
22 to establish a generic proceeding to establish prices for BellSouth's  
23 Interconnection Services, Unbundled Network Elements, and other related  
24 Elements and Services. As a result of various changes that have occurred  
25 since the Commission's original UNE pricing order, BellSouth is seeking to  
26 update its UNE rates established more than two years ago, to establish rates  
27 for new UNEs identified by the Federal Communications Commission in its  
28 UNE Remand Order and in its Line Sharing Order, and to set permanent  
29 geographically deaveraged rates for certain UNEs and combinations of UNEs  
30 to replace earlier established interim rates.

1 **Q. DO YOU HAVE COMMENTS WHICH YOU WOULD LIKE TO SHARE**  
2 **CONCERNING COMPETITION?**

3 A. Currently, BellSouth retail services are regulated under a scheme which  
4 provides flexibility for the Company to price its service to meet competitive  
5 pressures. While the Commission does has some ability to control prices  
6 charged for retail service, it is important in the long run for consumers in South  
7 Carolina to have to vibrant competitive alternatives in the local market. Since  
8 competitive carriers will be unable to replicate the network owned by  
9 BellSouth, it is imperative for the Commission to set BellSouth wholesale  
10 prices in a manner which will stimulate competition.

11 **Q. IN PREPARATION FOR THIS PROCEEDING, WHAT INFORMATION HAVE**  
12 **YOU REVIEWED?**

13 A. I have reviewed the Company's testimony. I have also reviewed portions of  
14 BellSouth's cost model, and additionally reviewed the Florida Public Service  
15 Commission Staff's recommended decision in Florida concerning BellSouth's  
16 UNE proceeding.

17 **Q. HAVE OTHER STAFF MEMBERS PREPARED AND SUBMITTED**  
18 **TESTIMONY IN THIS PROCEEDING?**

19 A. Yes. Doctor James E. Spearman has submitted testimony, which addresses the  
20 reasonableness of BellSouth proposed's cost of capital. Mr. David Lacoste has  
21 provided testimony concerning reasonableness of the BellSouth proposed  
22 depreciation rates.

23 **Q. HAS THE FLORIDA PUBLIC SERVICE COMMISSION RENDERED A**  
24 **DECISION CONCERNING BELL SOUTH'S UNE PRICES?**

25 A. My understanding is that the Florida Commission has voted on this matter, but  
26 unfortunately has not issued an Order on the matter. Also, my understanding  
27 is that the Florida Public Service Commission has adopted its Staff  
28 Recommendations with modifications.

29 **Q. IN REVIEW OF THE BELL SOUTH FLORIDA PROPOSALS AND THE**  
30 **FLORIDA COMMISSION STAFF RECOMMENDATIONS, WERE THERE**  
31 **SIGNIFICANT DIFFERENCES BETWEEN BELL SOUTH'S FLORIDA**  
32 **PROPOSAL AND THE FLORIDA STAFF'S RECOMMENDATION?**

1 A. A major observation was the differences between BellSouth's proposed UNE  
2 Non-recurring charges and Staff Recommended Non-recurring charges. The  
3 Florida Staff's recommended non-recurring rates were significantly less than  
4 those proposed by BellSouth in Florida. While various inputs contribute to the  
5 level of non-recurring charges in the Study, it appears that adjustment to the  
6 work times proposed by the Florida Commission Staff contributed to the  
7 difference.

8 **Q. HAS BELL SOUTH PROPOSED MODIFICATION TO THE STRUCTURE OF**  
9 **NON-RECURRING CHARGES IN SOUTH CAROLINA?**

10 A. Yes. BellSouth has proposed a new rate structure for its Non-recurring charges  
11 in South Carolina. BellSouth has proposed breaking the non-recurring  
12 charges (initial and additional) into two components: the Installation component  
13 and the Disconnect component.

14 **Q. DO YOU HAVE A RECOMMENDATION CONCERNING BELL SOUTH'S NON-**  
15 **RECURRING CHARGES?**

16 A. Yes. I would like to point out that competitive carriers for sometime have  
17 argued that BellSouth's Non-recurring charges are a barrier to entry into the  
18 competitive market. While the Commission has adopted BellSouth's Non-  
19 recurring Cost Model in an earlier proceeding, I recommend that the  
20 Commission weigh the Florida Commission Staff's analysis and  
21 recommendations concerning non-recurring charges in the context of this  
22 review. Again, I would point out that Florida Staff's recommendations are only  
23 recommendations, which may not be adopted by the Florida Public Service  
24 Commission, however, I believe that the recommendations are meritorious.

25 **Q. IN YOUR REVIEW, HAVE YOU FOUND ANY OTHER AREAS WHERE YOU**  
26 **FEEL ALTERNATIVES TO BELL SOUTH'S PROPOSAL MAY BE**  
27 **APPROPRIATE?**

28 A. Yes. In review of BellSouth's geographical deaveraging proposal, I observed  
29 that the Company has proposed to use the existing rate group structure for  
30 aggregation and development of three (3) zones for deaveraging. While the  
31 Commission is obligated by the FCC rules to deaverage UNEs into at least  
32 three (3) zones, the Commission is not required to use existing rate groups as

1 the method to deaverage UNEs. The Commission may define its own  
2 deaveraging zones in its efforts to further incent competition in the local  
3 telecommunications market. However, should the Commission decide to use a  
4 different zones than those proposed by BellSouth, I recommend that the  
5 Commission limit the number of zones to three (3).

6 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

7 **A. Yes.**